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Leveraging Public Funding for Mass Transit With P3s.

We have previously written about Miami-Dade County's proposed SMART plan, a massive, six-corridor expansion of the existing heavy rail system, and the benefits of delivering all or portions of the project as a public-private partnership (P3). This month, the County Mayor released an updated multiyear transportation pro forma that identifies $8.457 billion in available funding to implement the SMART Plan over the next 40 years. The County has estimated that this income stream could be used to borrow $2.6 billion today, or enough to construct two of the six corridors. Although the County does not have the funding to construct the entire SMART plan using a traditional, publicly financed and operated delivery, the County can utilize a P3 to stretch its financial resources as far as possible.

A key consideration in the funding of mass transit is the cost of ongoing operations and maintenance, which generally exceeds the construction cost. Notably, fares typically do not come close to covering operations and maintenance (O&M) expenses for mass transit. The percentage of O&M expenses covered by fares (what is called the "farebox recovery ratio") is usually between 25 and 50% for U.S. mass transit systems, with Miami typically falling at the lower end of the spectrum.

Because O&M accounts for such a significant portion of the cost of a new transit corridor, total costs can be reduced by keeping O&M costs under control. A P3 utilizing the DBFOM (design-buil--finance-operate-maintain) model requires that the private partner bear the risk of any future increases in O&M costs, and because those costs are included in the bid price, the County can save total costs by selecting the private partner that can construct and operate the system at the lowest total cost to the County. P3s can also be used to encourage private innovation that increases ridership and revenues, as can be most clearly observed in Hong Kong's mass transit system, which utilizes innovations such as first-class cars with higher fares and has a farebox recovery ratio of well over 100%.

A P3 approach cannot alone bridge the gap between two new corridors and six new corridors. The County will also need to find ways to lower costs, including using different, lower-cost technologies such as bus rapid transit (Bogota, Colombia, being the best-known BRT example), and increasing revenues (such as procuring more revenue-generating private developments on County property around transit stations). The right P3 delivery approach, however, can certainly go a long way toward bridging the funding gap and developing a world-class transit system.

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